

VZCZCXYZ0000  
RR RUEHWEB

DE RUEHBS #2164/01 1841203  
ZNR UUUUU ZZH  
R 031203Z JUL 07 ZDK  
FM AMEMBASSY BRUSSELS  
TO RUEHC/SECSTATE WASHDC 5807  
INFO RUCPDOG/USDOC WASHDC  
RUEATRS/DEPT OF TREASURY WASHDC  
RUCNMEN/EU MEMBER STATES  
RUEHRB/AMEMBASSY RABAT 2356

UNCLAS BRUSSELS 002164

SIPDIS

SIPDIS

STATE FOR EB/OIA, EB/TPP/IPE AND EUR/UBI  
TREASURY FOR OASIA/ICN - ATUKORALA  
USDOC FOR 4212/OECA/JLEVINE  
RABAT for W. BUSH

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [EINT](#) [EINV](#) [SENV](#) [BE](#)

SUBJECT: BELGIAN ECONOMIC STEWPOT: June 25, 2007

- 1-2. Strong Macro-Economic Outlook
- [13.](#) Belgian CO2 Emissions Fall - Finally
- 4-5. Private Equity Investment Booming in Belgium
- [16.](#) Belgian Film Industry Prospers
- 7-8. Fewer Belgians Traveling to the U.S.
- [19.](#) Belgian Beer Exports Up
- [110.](#) 2007 Budget derailed?

-----  
Strong Macro-Economic Outlook  
-----

[11.](#) (U) Belgium's macro-economic outlook is quite favorable, according to projections released by the Belgian National Bank (central bank). The BNB revised the 2007 GDP growth estimate upward from 2.1 to 2.5 percent, compared with 3.0 percent growth reached in 2006. BNB forecasts 2008 GDP growth at 2.2 percent. Inflation continues to drop, from 2.3 percent in 2006 to 1.6 percent in 2007, and is expected to hold at about that level in 2008. Public debt should drop to 85.6 percent of GDP by the end of 2007, and reach 82.7 percent in 2008. While still above the EU objective of no more than 65 percent of GDP as public debt, it reflects remarkable progress from the 134 percent Belgium faced in the last decade.

[12.](#) (U) With falling unemployment, Belgian companies face labor shortages. Unemployment should average 7.6 percent in 2007 and could drop to 7.2 percent in 2008, down from 8.2 percent in [12006](#). The Federation of Belgian Employers (FEB) claims that 300,000 positions are unfilled in the country, 120,000 of them in fields where Belgium lacks qualified employees. Even in francophone Wallonia, with unemployment rates of up to 25 percent in certain areas, some employers struggle to find employees with necessary skills. Belgium's delay in fully opening its labor markets to workers from the "new" EU-ten member states eliminates a relatively easy means to address the problem. The FEB fears that skilled labor shortage will lead to upward pressure on wages, ultimately boosting inflation, and hampering competitiveness. Addressing Belgium's constrained labor market ? and regional/sectoral stubborn unemployment ? is a key issue in the

negotiations to form a new government following the June 10 federal elections.

-----  
GHG Emissions Fall - Finally  
-----

13. (U) In a new study released by the European Environment Agency, data show that Belgium's greenhouse gas emissions actually dropped in 2005, declining by 2.6 percent over 2004 (outside the aviation sector). Earlier data showed Belgian output still climbing. This rate was significantly better than the EU-15 as a whole, which registered only a 0.8 percent drop. In actual quantities, Belgium produced 143.8 million tons of greenhouse gases (CO2 among others) in 2005, which is 2.1 percent less than it generated in 1990, the Kyoto Protocol baseline year. The good news is tempered by the fact that some of the reduction was due to an unusually mild winter, and growing popularity of diesel cars ? which are marginally more fuel efficient. We await final data from 2006 to see if Belgian emissions are really trending downward or if 2005 was an exception. Belgium will need to record a similar rate of progress for several years to achieve its target of a 7.5 percent reduction of 1990 emissions by 2012.

-----  
Private Equity Investment Booming in Belgium  
-----

14. (U) A survey conducted for the European Venture Capital Association, in partnership with the Belgian Venture Association (BVA) found that private equity (PE) investment in Belgian companies nearly tripled in 2006. Total PE investment in Belgium was 855 million euros in 2006. From 2005 to 2006, foreign private equity firms increased their investments in Belgium by 61%, and now account for 39% of private equity investments in Belgium. Apart from a one-time investment of 750 million euros in 2004, this is the highest level of foreign investment in Belgium in the past six years. For their part, Belgian private equity investors increased their investments abroad by 59%. Total private equity investment by Belgian investors, both at home and abroad, quadrupled from 2005 to 2006, from 193 million euros to 940 million euros. Most of this investment was in venture capital and buy-outs. Investment in the high-tech sector increased modestly, while non-high-tech investment showed a dramatic increase.

15. (U) The trends are consistent with overall foreign direct investment (FDI) in Belgium. The UN Conference on Trade and Development (UNCTAD) World Investment Report 2006 found that the stock of FDI in Belgium more than doubled between 2002 and 2005, with an annual growth rate of 29%. Belgium represented 5% of the total world stock of FDI in 2005. Guy Geldhof, Secretary General of the BVA, believes that the high level of investment in Belgium reflects a general trend upwards in the level of private equity investment in all of Europe, boosted by a large number of buy-outs and investments in expansion capital. Foreigners are attracted to Belgium because it has a high open economy and consists of many medium-size enterprises with reasonable valuations, making acquisitions affordable. 2007 is likely to be another banner year for private equity investment in Belgium, as several major Belgian PE firms have already reached their 2006 numbers only halfway through the year.

-----

## Belgian Film Industry Prospers

¶6. (U) Belgians see an average of 2.5 movies each per year. While most are foreign films, the 20 to 25 Belgian-made films each year are growing in popularity. Flemish filmgoers like movies that are spin-offs of successful TV shows; these rarely play well in the francophone south. Walloon films will play well in Flanders ? especially if the Walloon flick is produced with French counterparts and gets recognition at the Cannes film festival. Belgian movie directors often have successful film debuts, but due to problems with funding, casting, and production, many are unable to continue that success. To foster the industry, both Walloon and Flemish community governments subsidize film-making; the French Community allocating 9.3 million euros in 2006 for it, and the Flemish Audiovisual Fund allocating 9.75 million euros to it.

## Fewer Belgians Traveling to the U.S....

¶7. (U) Despite the Visa Waiver program that exempts Belgians from a visa requirement for travel to the U.S., and despite a highly favorable Euro-to-dollar exchange rate, fewer tourists in 2006 traveled across the Atlantic for their vacations. According to the Belgian Tour Operators Association (ABTO), organized group tours to the New World fell 20% between 2005 and ¶2006. This was confirmed by Carlson Wagonlit Travel, the top travel agency network in Belgium. "Tourist travel to the US has diminished by at least 15%.

¶8. (U) The 15-20 percent drop-off in Belgian tourism parallels other European rates: in comparison to the year 2000, the number of British tourists to the States in 2006 dropped 11%, German tourism dropped 22%, and French are down 28%. On the other hand, notes Gillis, the number of people traveling for business purposes is up 10-12 percent over the course of the last 12 months. Cheap prices do attract some visitors, however: the number of plane tickets purchased by students and backpackers increased by 15 percent in 2006.

## Belgian Beer Exports Heading Up

¶9. (U) According to the Belgian Brewers Association, 2006 was a very good year. Although domestic beer consumption decreased by 1.1 , production at Belgium's breweries grew by 6' and net exports increased by 15 . Exports now account for 55 percent of total Belgian beer production. Despite the small decrease in domestic consumption, beer remains the preferred alcoholic beverage of choice in Belgium ? 89 liters (27 gallons) consumed per resident. The slight decrease is likely the result of changing consumption habits and fewer people frequenting hotels, restaurants, and cafes. Belgian brewers have been investing more in production and in developing better packaging and promotion for their expanding foreign markets.

## 2007 Budget derailed?

¶10. (U) A memorandum from the Finance Ministry shows a shortfall of some 600 million euros over earlier projections for the first five months of this year. To make matters worse, the European Statistical Office has ruled against budgetary

measures such as the sale of uncollected taxes to banks and other financial institutions, a measure which the Verhofstadt government was hoping would bring in some 160 million euros in 2007 revenues. If one also takes into account the Christian-democratic party objections to one-shot budgetary measures, such as the takeover of pension funds and the sale of government buildings, another 1.3 billion euros extra will have to be found by the next government coalition, bringing the total of extra revenues/cuts needed to more than 2 billion euros.

FOX